NYCAN

ANNUAL REPORT

1997

Corporate Profile

Nycan Petroleum Corp. participates in the energy industry, concentrating its efforts on the generation, acquisition, exploration and development of geologic prospects in Southeastern Alberta. Careful management of assets and conservative business decisions, in combination with innovative approaches to exploration, have contributed to our steady growth since 1996. Nycan strives to continue its exploration programs through the various cycles of the industry while attempting to maximize the value of the Company for the benefit of all shareholders.

Nycan, a public company, trades on The Alberta Stock Exchange as NAP.A.

About the Cover

Abstracted from a portion of the 3-D seismic delineated on the Turin East map on page 5, the representation depicts a typical Southern Alberta Pre-Cretaceous Erosional Structural Contour Map.

Annual Meeting

The Annual Meeting of Shareholders will be held at 3:00 p.m. on Wednesday, May 27, 1998, in the Viking Room of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.

At the Annual Meeting, shareholders will vote on the Company's recommendation to a consolidation of Nycan Petroleum Corp. common shares of four to one, and a change of name to Nycan Energy Corp. (see accompanying Information Circular).

Table of Contents

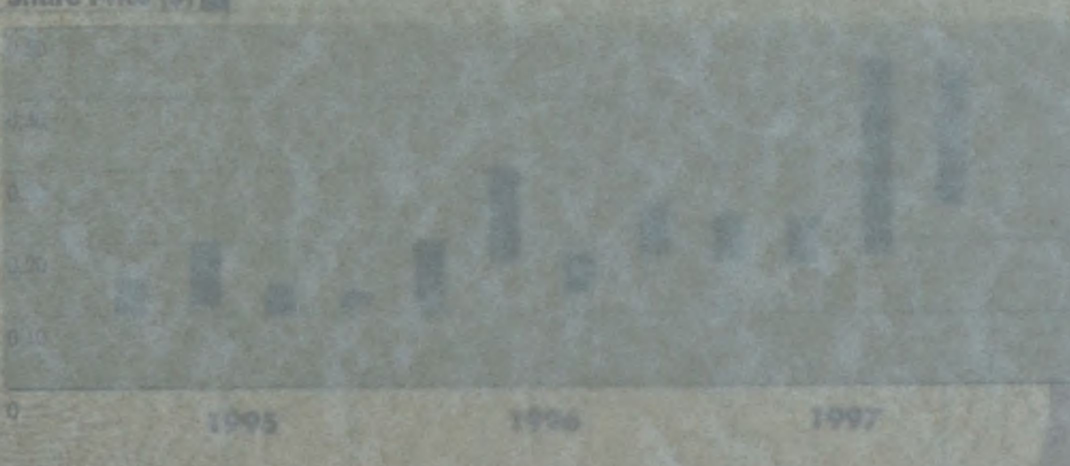
Abbreviations

Bbls ....barrels
Bbls/d ....barrels per day
BOED ....barrels of oil equivalent per day
BOPD ....barrels of oil per day
Mcf....thousand cubic feet
Mcf/d ....thousand cubic feet per day
Mmcf ....million cubic feet
Mstb ....thousand stock tank barrels
NGLs ....natural gas liquids

Highlights

	1997	1996	% Change
Financial			
Revenue [illegible]	[illegible]	[illegible]	[illegible]
Funds Flow [illegible]	[illegible]	[illegible]	[illegible]
Funds Flow per Share	[illegible]	[illegible]	[illegible]
Net Income	[illegible]	[illegible]	[illegible]
Net Income per Share	[illegible]	[illegible]	[illegible]
Total Assets	[illegible]	[illegible]	[illegible]
Shareholders' Equity	[illegible]	[illegible]	[illegible]
Common Shares Outstanding [illegible]	[illegible]	[illegible]	[illegible]
Operations			
Oil and NGLs [illegible]	[illegible]	[illegible]	[illegible]
Natural Gas [illegible]	[illegible]	[illegible]	[illegible]
Exit Rate [illegible]	[illegible]	[illegible]	[illegible]
Product Prices			
Oil [illegible]	[illegible]	[illegible]	[illegible]
NGLs [illegible]	[illegible]	[illegible]	[illegible]
Natural Gas [illegible]	[illegible]	[illegible]	[illegible]
Undeveloped Lands			
Gross Acres	[illegible]	[illegible]	[illegible]
Net Acres	[illegible]	[illegible]	[illegible]
Number of Wells [illegible]	[illegible]	[illegible]	[illegible]

Share Price ($)



Corporate Profile

Nycan Petroleum Corp. [illegible] industry, concentrating its efforts on the generation, [illegible] prospects in Southeastern Alberta. [illegible] decisions, in combination with [illegible] contributed to our steady growth since 1996. [illegible] the various cycles of the industry [illegible] the benefit of all shareholders.

[illegible] Exchange as NAP.A.

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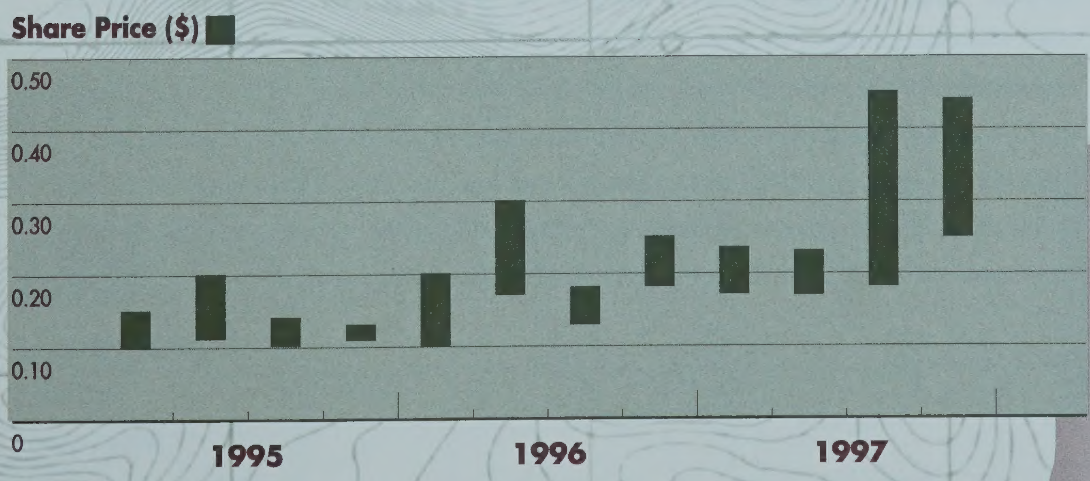
NGLs ....natural gas liquids

Highlights

	1997	1996	% Change
Financial			
Revenue (after Royalties)	**$ 1,604,317**	$ 1,299,126	23
Funds Flow from Operations	**867,251**	691,415	25
Funds Flow per Share	**0.028**	0.026	(8)
Net Income	**229,425**	247,512	(7)
Net Income per Share	**0.007**	0.009	(22)
Total Assets	**7,538,238**	4,507,602	67
Shareholders' Equity	**4,578,074**	3,608,038	27
Common Shares Outstanding at year end	**34,420,600**	31,120,320	11
Operations			
Oil and NGLs (Bbls/d)	**118**	91	30
Natural Gas (Mcf/d)	**1,125**	860	31
Exit Rate (BOED)	**400**	235	70
Product Prices			
Oil ($/Bbl)	**21.28**	25.08	(15)
NGLs ($/Bbl)	**23.27**	23.00	1
Natural Gas ($/Mcf)	**1.92**	1.68	14
Undeveloped Land			
Gross Acres	**43,447**	32,597	33
Net Acres	**10,239**	7,509	36
Number of Wells drilled	**21**	10	110



Message to Shareholders

On behalf of the Board of Directors, I am pleased to report that the strategies implemented in 1996, and carried through 1997 have yielded significant growth for Nycan.

Our principal goal of establishing a core exploration and exploitation area has now been realized at Turin East and we have only begun to develop the area's potential. Drilling to date has been concentrated on three of our 14 sections of land on this property and proprietary seismic indicates numerous drilling locations. With continued success, this project could develop into a 'company maker' and lead to a multi-year drilling program, moving Nycan into a much larger size and corporate rating.

Focus

Nycan's continued focus on the development of internally generated ideas and prospects in Southeastern Alberta, allowed it to achieve record growth in cash flow, production and capital expenditures in 1997. Strong product prices and financial markets allowed the Company to flourish.

Strategy

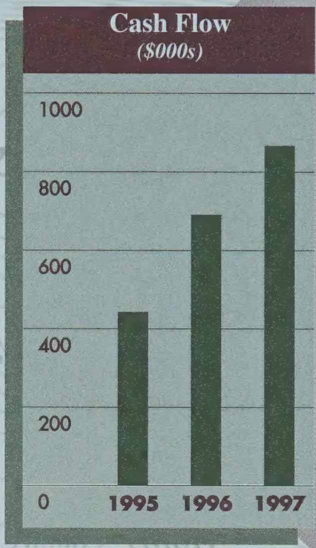
Continuing the theme of concentrating in those areas where Nycan employees have expertise, we rapidly advanced our prospects in the geographic area of Turin, just north of Taber, Alberta. At Turin East, the extensive use of 3-D seismic has resulted in high drilling success rates. Of the 10 wells drilled in 1997, eight have been cased as potential producers.

Just a few years ago, companies of Nycan's size would not have invested in 3-D seismic because of the high front-end costs; however, it appears to be a key ingredient to the exploitation of Taber sand reserves at Turin East. Nycan has invested over $600,000 in 3-D seismic in this area and has full coverage over 12 sections of Nycan-controlled lands. As a result of this investment, Nycan has identified in excess of 40 further exploration and development locations on its lands. Farmins on two similar prospects have been negotiated and will be drilled in 1998.

Through continuous acquisitions and farmins, Nycan has increased its land spread in Southeastern Alberta. Further opportunities are being pursued and new exploration ideas are currently being reviewed. The Company is developing a number of other prospects in this general area, at Enchant, Retlaw and Alderson.

Results

Improved product prices combined with higher production volumes contributed to record revenues. Funds flow from operations increased 25% to $867,251 in 1997, from $691,415 in 1996. The sale of Little Bow added $600,000 to working capital for the Company. Capital expenditures for the year ended December 31, 1997 were $3.8 million, an increase of 170% from the $1.4 million expended in 1996. At Turin East, $26,174 was spent on 2-D seismic, and $599,488 was spent on 3-D seismic programs. Land and production acquisition costs totalled $334,235 and $2,562,974 was expended on drilling and facilities. General and administrative costs remained low at $170,325 compared to $180,824 in 1996.



On a daily basis, Nycan produced 118 barrels of oil and natural gas liquids, compared to 91 barrels of oil and natural gas liquids in 1996, and 1,125 thousand cubic feet of natural gas, compared to 860 thousand cubic feet of natural gas in 1996. Nycan's 1997 exit volumes were 400 BOED, a 70% increase over the 1996 exit volumes of 235 BOED.

Corporate

In addition to the accomplishments achieved in exploration and development, a number of forward moving corporate decisions were made. Nycan became a reporting issuer in British Columbia in 1997 in order to access larger capital markets. The Normal Course Issuer bid was approved by The Alberta Stock Exchange in July, and 37,500 common shares were repurchased for cancellation in 1997. The bid expires in July, 1998. The holders of Preferred Shares all elected to convert to common shares, resulting in the issuance of 800,002 shares.

During the last quarter, Nycan issued 2,537,778 flow through common shares by way of two private placements. The Company received net proceeds of $1,142,0000 at a price of $0.45 per share. The raising of this equity was timely as it allowed Nycan to continue with an active drilling and seismic program at Turin East while maintaining a strong balance sheet.

To improve marketability of the Company's common shares and to better facilitate future financings, management proposes a consolidation of common shares on a four-to-one basis and a name change to Nycan Energy Corp. Shareholders will be asked to approve these changes at this year's Special and Annual General Meeting.

Success

Nycan owes its success to a few dedicated professionals who have devoted their energy to its growth. The overall direction set by the Board of Directors and carried out by our tireless staff has lead to the results achieved this year. Each individual has made special contributions and deserves a personal thank you at this time, Cliff Jeffrey, Tim Deschamps, Cheryl de Leeuw, Elizabeth Burke-Gaffney, and Debra McPherson. . . the team; and Bob Lamond, Tony Teare, Cliff Jeffrey, Tom Robinson, Leo Jegen, Pat McCarthy and Ian Henderson. . . the Directors. I would also like to thank our shareholders for their continuous support and interest in our activities. We appreciate hearing from you.

On behalf of the Board of Directors,

R. L. McPherson
President
April 4, 1998

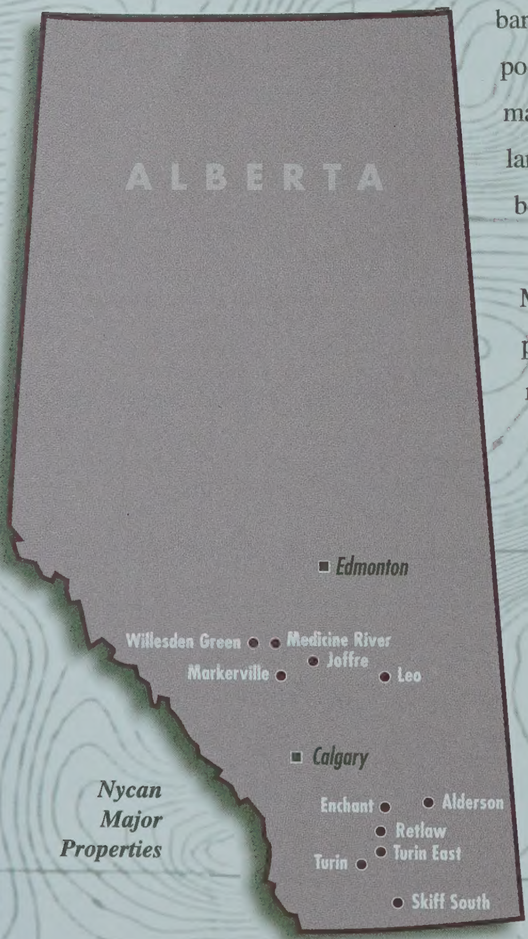
Exploration and Development Operations

Turin East

Working interest:	21.25% to 42.5%
Landholdings, gross:	10,560 acres
Landholdings, net:	3,875 acres
Productive wells:	11
Potential locations:	40 to 50

Over the past year, Turin East has evolved from an exploration concept into Nycan's core area. The Company's land position has increased by 250%. Wells capable of production have increased from one to 11 and a centralized production facility is under construction. 3-D seismic coverage now exceeds 23 square miles with one program remaining to be completed this spring.

Production at Turin East is taken from the Lower Mannville and Mississippian formations. Hydrocarbons are trapped in Lower Mannville sands overlying Mississippian highs. Mississippian accumulations can occur coincident with Lower Mannville production where the top of the Mississippian is dolomitized across a closed structure. Typical pools in both the Lower Mannville and the Mississippian produce 500,000 to 2,000,000 barrels of oil. Nycan has discovered four separate pools over its lands to date and has seismically mapped at least seven additional structures on its lands, all of which are known to be hydrocarbon bearing from existing well control.



Nycan Major Properties

Battery construction will be completed in May, allowing Nycan to conserve solution gas, produce gas wells, optimize oil production and maximize netbacks. Initial production from the existing wells, after completion of the battery, is anticipated to be 550 BOPD and 3.0 Mmcf/d of gas. Nycan's share of this production will be 240 BOPD and 1.4 Mmcf/d of gas.

1998 drilling will focus on drilling earning wells on new structures and satisfying lease commitments. At least seven wells will be drilled in this area during 1998. Development and infill drilling will take place over the next two years. Nycan anticipates that full development of these lands will ultimately require the drilling of 40 to 50 additional wells.

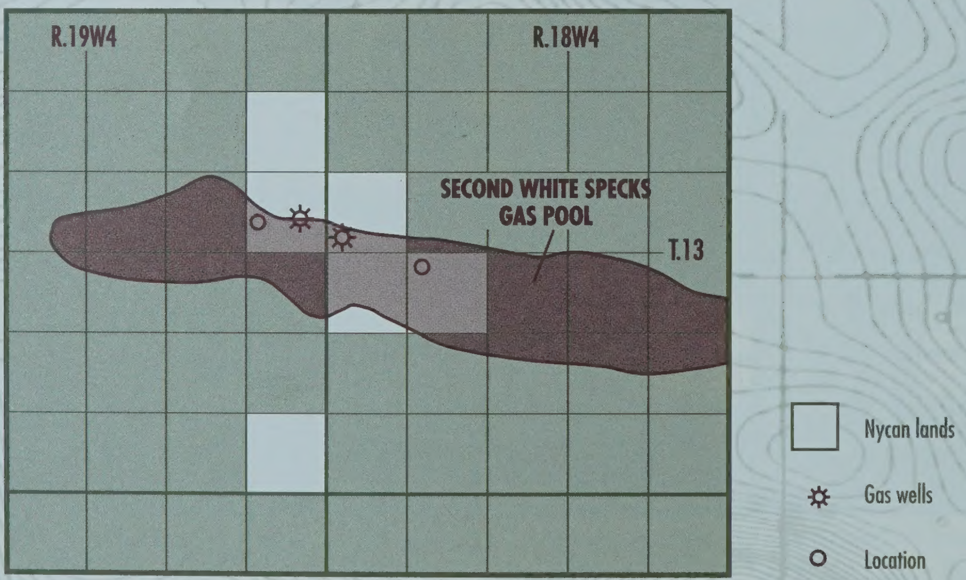
Turin East, Alberta

Retlaw

Working interest:	100%
Landholdings:	2,560 acres
Productive wells:	2
Potential locations:	2

During 1997, Nycan acquired a 100% interest in four sections of land at Retlaw as well as a compressor and a Basal Colorado well capable of producing 100 to 150 Mcf/d of natural gas. A suspended well located on these lands was recompleted as a Second White Specks gas well and two additional Second White Specks locations have been mapped on Nycan lands. Reserves of 750 Mmcf per well are expected and production will be 1.0 Mmcf/d when the three wells have been completed. Nycan is actively pursuing additional opportunities in this area and expects to acquire at least one more re-entry opportunity in the near term.

Retlaw, Alberta

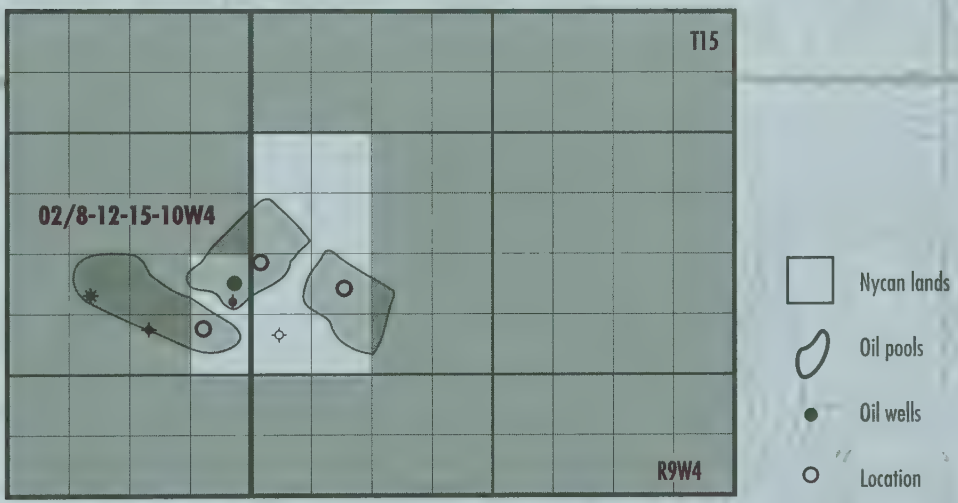


Alderson

Working interest:	100%
Landholdings:	400 acres
Productive wells:	1
Potential locations:	2

One well was drilled on this property in 1997 and is currently producing 20 BOPD from the Sunburst Sand. Two additional locations have been mapped with 3-D seismic and one location has been licenced. Future plans include installation of treating and salt water disposal facilities as well as acquiring additional production and prospective acreage adjacent to these lands.

Alderson, Alberta

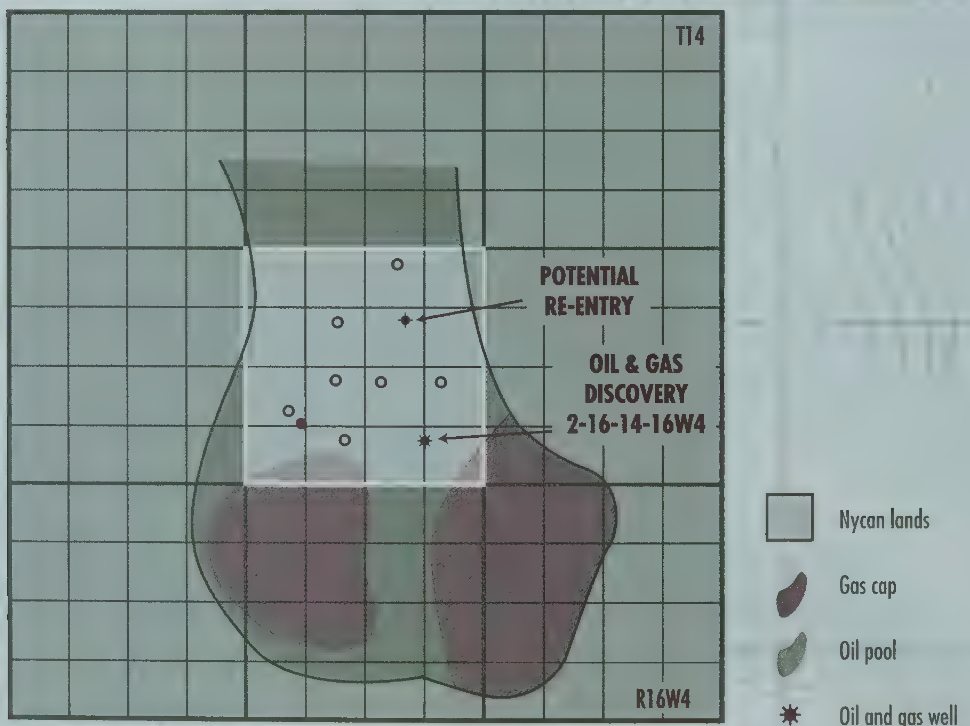


Enchant

Working interest:	50%
Landholdings, gross:	640 acres
Landholdings, net:	320 acres
Productive wells:	1
Potential locations:	7

Nycan's first well of 1998 was drilled on this prospect. The well tested both gas and oil from the Glauconitic formation. Initial production is expected to be 400 Mcf/d of gas and 20 BOPD. This well will be tied in by March 15, 1998. Prior to spring breakup, Nycan plans to re-enter an abandoned well on the property and recomplete the Glauconitic zone. Additional follow-up drilling will be pursued in the fall of 1998. Reserves of 75,000 to 100,000 Bbls per well are expected and ultimately, eight wells could be drilled on this property.

Enchant, Alberta



Reserves

Nycan's oil and natural gas reserves and associated net present value were evaluated by Ashton Jenkins & Associates Ltd. as of January 1, 1998 and are detailed in the following tables.

Estimated Reserves

	Gross Reserves			Net Reserves		
	Oil (Mstb)	Natural Gas Liquids (Mstb)	Gas (Mmcf)	Oil (Mstb)	Natural Gas Liquids (Mstb)	Natural Gas (Mmcf)
Escalated Prices						
Proved Producing	273	82	3,621	232	63	2,872
Proved Non-Producing	55	—	979	51	—	745
Total Proved	328	82	4,600	283	63	3,617
Probable Additional	394	33	2,368	361	24	1,907
Total	722	115	6,968	644	87	5,524

Estimated Present Value

	Present Value (Discounted at) 10%	12%	15%
Escalated Prices (M$)			
Proved Producing	$ 5,384	$ 5,083	$ 4,704
Proved Non-Producing	897	838	758
Total Proved	6,281	5,921	5,462
Probable Additional	3,542	3,085	2,551
Total	$ 9,823	$ 9,006	$ 8,013

Undeveloped Land

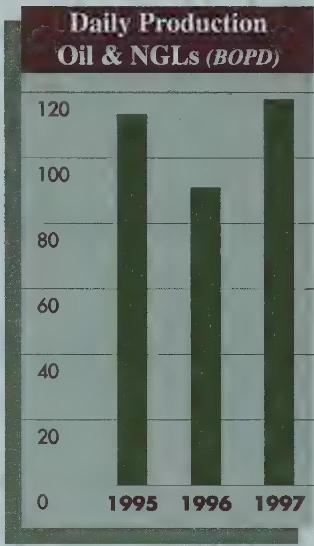
In a report dated March 26, 1998 by Seaton-Jordan & Associates, independent consultants, the market value of the undeveloped lands as of January 1, 1998 was estimated to be $1,014,894.

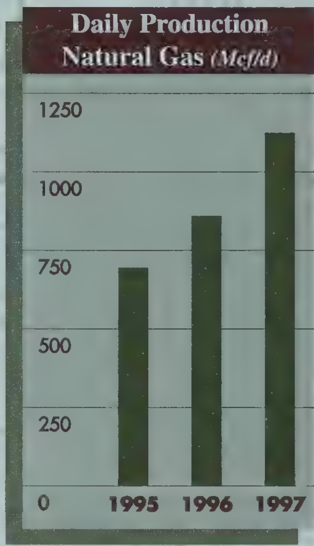
Daily Production Volumes
Oil & NGLs (BOPD)

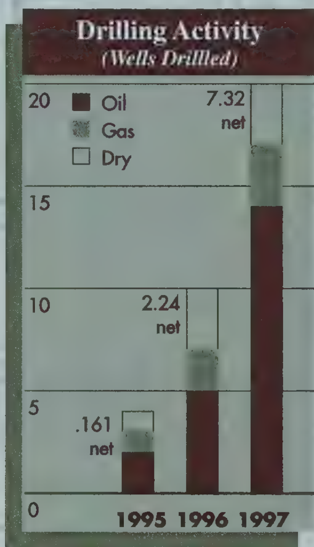
	1997	*1996*	*1995*
Alderson	**5.8**	—	—
Joffre	**7.7**	5.1	9.5
Leo	**2.7**	1.3	—
Markerville/Sylvan Lake	**6.7**	14.0	15.4
Medicine River	**5.8**	6.7	5.7
Skiff	**7.2**	3.7	1.5
Turin	**8.4**	10.0	13.4
Turin East	**43.7**	—	—
Wilson Creek	**11.2**	10.4	13.3
Others	**18.8**	40.1	54.6
Total	**118.0**	91.3	113.4

Natural Gas (Mcf/d)

	1997	*1996*	*1995*
Joffre	**198.5**	162.6	201.7
Markerville/Sylvan Lake	**613.5**	453.7	264.8
Medicine River	**226.1**	205.6	180.3
Retlaw	**45.0**	—	—
Wilson Creek	**12.7**	14.1	16.4
Others	**28.7**	24.3	31.8
Total	**1,124.5**	860.3	695.0







Outlook for 1998

The year has opened much differently than 1997. A combination of events, led by the economic collapse of many Asian economies and a warmer than normal winter in North America due to El Nino, has resulted in much lower product prices and a general downturn in the financial markets. Product prices received in the first quarter of 1998 were between 30% and 40% lower than product prices a year ago. This reduces netbacks to the producers, negatively impacting cash flow. Many companies will find themselves over-leveraged in this pricing scenario.

We anticipate 1998 capital expenditures in the oil and gas industry for exploration and development to be much lower than last year. We also expect to see an increase in corporate and property rationalizations. On the positive side, we anticipate lower costs for petroleum and natural gas rights, drilling and seismic costs. The year 1998 will provide opportunities for companies in reasonable fiscal condition.

Nycan has budgeted capital expenditures of approximately $2.1 million, closely matching projected cash flow, with no material increase in debt. Funds have been allocated to the drilling of six wells, two recompletions, 3-D seismic and land acquisitions at Turin East; the drilling of two wells and one re-entry at Enchant; and the drilling of wells at both Turin and Retlaw. If commodity prices increase or equity funding is available at acceptable price levels to Nycan, our drilling program will be expanded.

We believe that it is necessary to operate responsibly through the high and low cycles of the energy industry and financial markets. We will continue to work diligently on behalf of our shareholders to build a solid energy company. At the end of the day, we will still be here.

Auditors' Report

To the Shareholders of Nycan Petroleum Corp.

We have audited the balance sheets of Nycan Petroleum Corp. as at December 31, 1997 and 1996 and the statements of income and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants
Calgary, Alberta
March 20, 1998

Balance Sheet

	December 31 1997	1996
Assets		
Current assets		
Cash	$ —	$ 185,021
Accounts receivable	**773,843**	581,984
Notes receivable (Note 2)	**48,000**	66,000
	821,843	833,005
Notes receivable (Note 2)	**90,000**	120,000
Cash in escrow (Note 5)	**462,115**	—
Property, plant and equipment, net (Note 3)	**6,164,280**	3,554,597
	$ 7,538,238	$ 4,507,602
Liabilities		
Current liabilities		
Accounts payable	**$ 1,506,660**	$ 278,795
Bank loan, secured (Note 4)	**425,392**	—
Preferred shares (Note 5)	—	120,000
Deferred income taxes	**958,974**	456,494
Future site restoration liability	**69,138**	44,275
Shareholders' Equity		
Share capital (Note 5)	**3,739,802**	2,989,376
Retained earnings	**838,272**	618,662
	4,578,074	3,608,038
	$ 7,538,238	$ 4,507,602

Approved by the Board

Director
R. L. McPherson

Director
C. A. Teare

Statement of Income and Retained Earnings

	Year ended December 31	
	1997	*1996*
Revenues		
Oil and gas production, net	**$ 1,604,317**	$ 1,299,126
Expenses		
Production	**528,425**	405,967
General and administrative	**170,325**	180,824
Depletion and depreciation	**637,826**	443,903
Interest on long-term debt	**31,483**	10,720
Preferred share dividends	**6,833**	10,200
	1,374,892	1,051,614
Net income for the year	**229,425**	247,512
Retained earnings at beginning of the year	**618,662**	371,150
Share repurchase (Note 5)	**(9,815)**	—
Retained earnings at end of the year	**$ 838,272**	$ 618,662
Earnings per share	**$ 0.007**	$ 0.009

Statement of Changes in Financial Position

	Year ended December 31	
	1997	*1996*
Cash provided by (used in) operating activities		
Net income	$ **229,425**	$ 247,512
Add: Non-cash item		
Depletion and depreciation	**637,826**	443,903
Funds flow from operations	**867,251**	691,415
Net change in non-cash working capital components	**1,036,006**	(177,179)
Cash provided by operating activities	**1,903,257**	514,236
Cash provided by (used in) investing activities		
Disposal of property, plant and equipment	**615,000**	77,675
Acquisition of property, plant and equipment	**(3,837,646)**	(1,399,582)
Repayment (issuance) of notes receivable	**48,000**	(186,000)
Cash in escrow	**(462,115)**	—
Cash used in investing activities	**(3,636,761)**	(1,507,907)
Cash provided by (used in) financing activities		
Increase in (repayment of) bank loan	**425,392**	(53,365)
Issuance of common shares	**780,976**	1,232,057
Redemption of preferred shares	**(120,000)**	—
Flow through shares to be issued	**462,115**	—
Cash provided by financing activities	**1,548,483**	1,178,692
Net (decrease) increase in cash	**(185,021)**	185,021
Cash at beginning of the year	**185,021**	—
Cash at end of the year	$ **—**	$ 185,021
Funds flow from operations per share	$ **0.028**	$ 0.026

Notes to Financial Statements

December 31, 1997

1. Accounting policies

Property, plant and equipment

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-productive properties, costs of drilling both productive and non-productive wells and related overhead charges. The capitalized costs are depleted using the composite unit-of-production method based upon estimated proved reserves before royalties. In calculating depletion, crude oil reserves are converted to equivalent units of natural gas based on the relative energy content of each product.

The capitalized costs less accumulated depletion and depreciation, deferred taxes, and the future site restoration liability are limited to an amount equal to the estimated future net revenues from proved reserves based on current prices and costs, plus the lower of cost and estimated fair value of unproven properties, less estimated future general and administrative expenses, financing costs, income taxes and future site restoration costs.

Proceeds from the sale of oil and gas properties are applied against capital costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Future reclamation costs

Estimated future dismantlement and site restoration costs for conventional oil and gas assets are provided using the unit of production method. The expense is included in depreciation and depletion.

Joint ventures

Most of the Company's exploration, development and production activities are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

2. Notes receivable

The Company has extended non-interest bearing share purchase loans to an employee who is also a director. The loans are evidenced by notes receivable and are secured by the shares issued.

3. Property, plant and equipment

	December 31	
	1997	*1996*
Petroleum and natural gas properties, at cost	**$ 8,848,678**	$ 5,628,448
Accumulated depletion and depreciation	**2,684,398**	2,073,851
	$ 6,164,280	$ 3,554,597

The above amount includes property, plant and equipment of $153,000 which is not deductible for income tax purposes.

Unproved property costs of $698,000 (1996 - $198,000) have been excluded from assets subject to depletion.

In applying the full cost ceiling test, base prices of $18.94/bbl and $1.80/mcf were used for oil and natural gas, respectively.

Administrative expenses related to exploration activities were capitalized as part of petroleum and natural gas properties and amounted to $54,098 in 1997 (1996 - $30,578).

4. Bank loan

The Company has a $1,500,000 secured revolving production loan, of which $425,392 was outstanding at December 31, 1997 (1996 - $Nil), with a Canadian chartered bank. The facility carries an interest rate of prime plus 3/4 of 1%, is payable on demand and is subject to annual review by May 31, 1998. Required principal payments are not anticipated in 1998.

The loan is secured by an interest in certain property, a general assignment of book debts and a $2,000,000 first floating charge demand debenture.

5. Share capital

Authorized

Unlimited number of Class A common shares without nominal or par value

Unlimited number of Class B common shares without nominal or par value

Unlimited number of Class C preferred shares without nominal or par value

Unlimited number of Class D preferred shares without nominal or par value

	Number	Amount
Class A shares		
Issued		
Balance at December 31, 1995	23,659,048	$ 2,153,319
For cash on share issue (a)	2,900,000	376,316
Pursuant to flow through share agreements, net of related tax effect (a)	4,561,272	459,741
Balance at December 31, 1996	31,120,320	2,989,376
Conversion of Class D preferred shares (b)	800,002	120,000
Pursuant to flow through share agreements, net of related tax effect	1,510,856	376,272
Normal course issuer bid (c)	(37,500)	(4,630)
Balance at December 31, 1997	33,393,678	3,481,018
Flow through shares to be issued, net of related tax effect (d)	1,026,922	258,784
Total	34,420,600	$ 3,739,802

(a) In 1996, the Company issued 4,561,272 flow through Class A shares and 2,900,000 Class A shares. Of these, 1,437,333 flow through Class A shares and 2,900,000 Class A share were issued to board members and other related parties.

(b) On September 1, 1997, the Company converted the 1,200 Class D, Series 2 preferred shares outstanding and issued 800,002 Class A common shares. The Class D, Series 2 shares were convertible, redeemable, retractable, non-voting shares having a redemption price of $100 and convertible at a ratio of 667 Class A shares for each Class D, Series 2 share, and having quarterly dividends at an annual rate of $8.50 per share.

(c) The Company has established a normal course issuer bid that will enable the Company to repurchase up to 1,556,016 of its issued and outstanding common shares on the open market through the facilities of The Alberta Stock Exchange. The bid expires on July 28, 1998. During the year ended December 31, 1997, the Company repurchased and cancelled 37,500 common shares pursuant to the bid at a cost of $14,445, $4,630 of which reduced share capital and $9,815 of which reduced retained earnings.

(d) The Company has reserved 1,026,922 shares for issuance pursuant to a flow through investment agreement dated December 1997. Pursuant to the agreement, proceeds of $462,115 have been deposited with the Company's solicitors, to be held in escrow until the Company has incurred resource expenses that will be renounced pursuant to the Income Tax Act (Canada). Subsequent to December 31, 1997, the Company incurred such expenditures, the funds were released from escrow and the shares issued. The Company has, effective December 31, 1997, renounced the related resource expenditures of $462,115.

(e) At December 31, 1997, 2,200,000 Class A shares were reserved in respect of options granted to directors, officers and employees to acquire Class A shares at $0.15 per share. These options expire between June 30, 1998 and March 25, 2001.

6. Financial instruments

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable, and all current liabilities and long-term borrowings.

(a) Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet, including long-term borrowings, approximate their carrying amount due to the short-term maturity of those instruments and the floating prime rate applied to long-term borrowings.

(b) Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks

(c) Interest rate risk

At December 31, 1997, there is no interest rate risk.

7. Commitments

The Company has committed to future minimum payments under an operating lease covering office facilities as follows:

1998	$ 53,770
1999	$ 53,770
2000	$ 53,770
2001	$ 35,847
2002	$ —

8. Income taxes

The provision for income taxes in the statement of income and retained earnings varies from the amount that would be computed by applying the expected tax rate of 44% (1996 - 44%) to income before income taxes. The principal reasons for differences between such expected income tax expense and the amount actually recorded are as follows:

	Year ended December 31	
	1997	*1996*
Computed expected income tax expense	**$ 100,947**	$ 108,905
Increase (decrease) in income taxes resulting from		
Preferred share dividends	**3,007**	4,488
Non-deductible royalties, taxes, lease rentals and depletion	**111,338**	62,205
Federal resource allowance	**(65,580)**	(71,583)
Alberta royalty tax credit	**(42,284)**	(46,761)
Recognition of prior years' tax losses not previously recognized	**(107,428)**	(57,254)
Income tax provision	**$ —**	$ —

The Company has the following tax deductions at December 31, 1997 available to reduce future taxable income:

Non-capital loss carryforwards	$ 469,949
Canadian oil and gas property expense	427,095
Canadian development expense	388,511
Canadian exploration expense	1,318,130
Undepreciated capital cost	1,094,111
Foreign exploration and development expense	830,255
	$ 4,528,051

Certain of these deductions are "streamed" and therefore, their deductibility is dependent upon earning income from specific properties.

Corporate Information

Corporate Office

[illegible] 8th Avenue S.W.

Calgary, AB

T2P [illegible]

Telephone: [illegible]

Facsimile: [illegible]

Board of Directors

Robert W. [illegible], Chairman

Robert E. McPherson

Clifford A. Jeffrey

Thomas W. Robinson

Gerald T. McCarthy

[illegible] M. [illegible]

[illegible] A. [illegible]

Ian D. Henderson

Legal Counsel

[illegible] Robinson Clark

Calgary, AB

Bankers

Canadian Imperial Bank of Commerce

Main Branch

Calgary, AB

Auditors

Price Waterhouse

Chartered Accountants

Calgary, AB

Reserve Engineering Consultants

Ashton Jenkins & Associates Ltd.

Calgary, AB

Registrar and Transfer Agent

Montreal Trust

Calgary, AB

Stock Listing

The Alberta Stock Exchange

Trading Symbol: NAR.A

	Year ended December 31	
	1997	1996
Computed expected income tax expense	$ 99,957	$ 104,905
Increase (decrease) in income taxes resulting from:		
Preferred share dividends	3,997	4,466
Non-deductible provincial taxes, lease rentals and depletion	111,338	[illegible]
Resource allowance	(65,580)	(91,549)
Alberta royalty tax credit	(42,284)	(46,761)
Recognition of prior years' tax losses not previously recognized	(107,428)	(57,254)
Income tax provision	$ —	$ —

The Company has the following tax deductions at December 31, 1997 available to reduce future taxable income:

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Corporate Information

Corporate Office

1700, 633 - 6th Avenue S.W.
Calgary, AB
T2P 2Y5
Telephone: (403) 264-7377
Facsimile: (403) 266-6669

Board of Directors

Robert W. Lamond, Chairman
Robert L. McPherson
Clifford A. Jeffrey
Thomas W. Robinson
Patrick T. McCarthy
Leo J. M. Jegen
Charles A. Teare
Ian D. Henderson

Legal Counsel

Johnston Robinson Clark
Calgary, AB

Bankers

Canadian Imperial Bank of Commerce
Main Branch
Calgary, AB

Auditors

Price Waterhouse
Chartered Accountants
Calgary, AB

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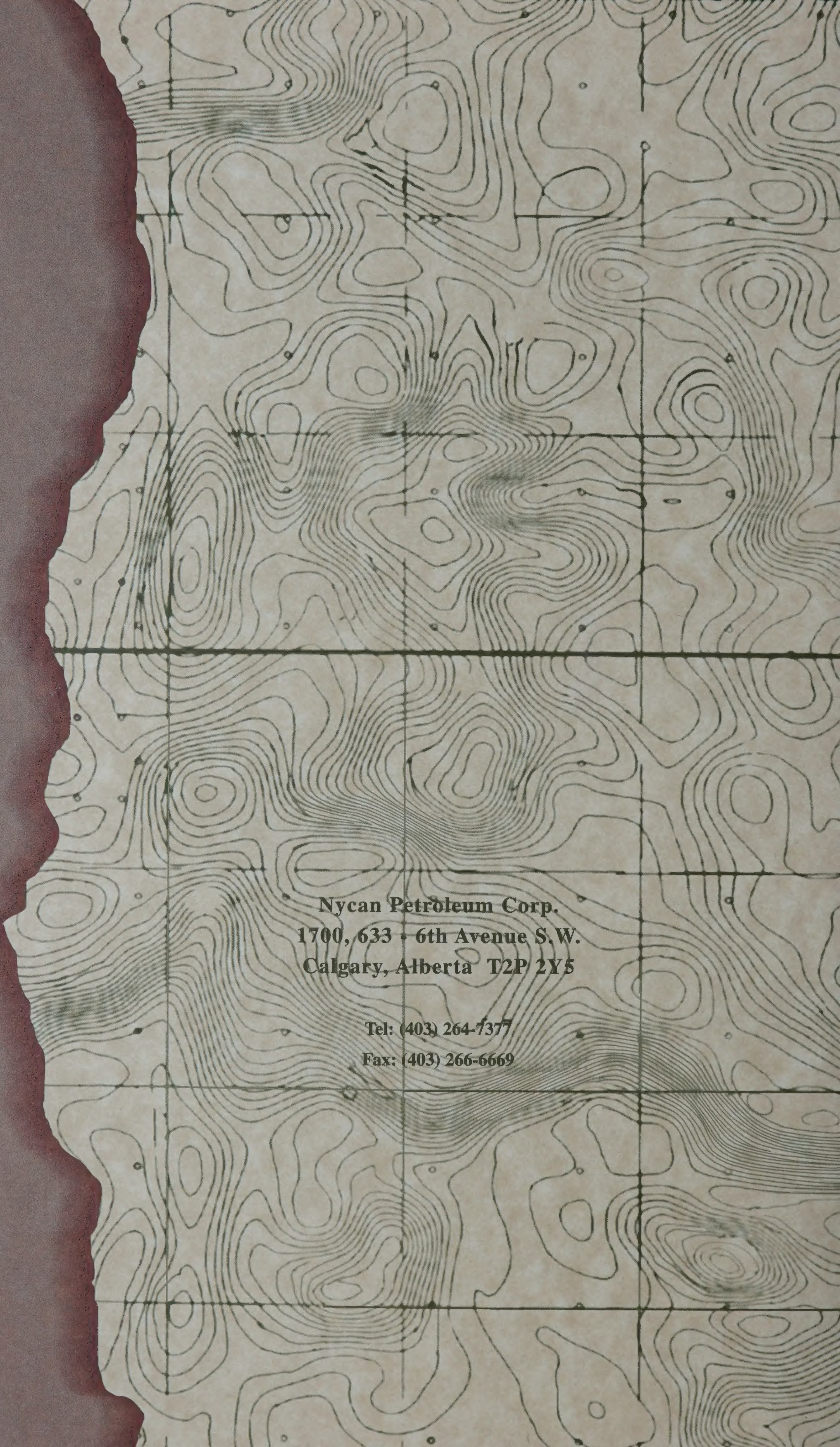
Stock Listing

The Alberta Stock Exchange
Trading Symbol: **NAP.A**

Produced by Canada Corporate Communications Inc.



Nycan Petroleum Corp.
1700, 633 - 6th Avenue S.W.
Calgary, Alberta T2P 2Y5

Tel: (403) 264-7377
Fax: (403) 266-6669